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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

FOR THE PERIOD ENDED SEPTEMBER 30, 1992

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MONTANA LOTTERY

FINANCIAL STATEMENTS
(Unaudited)

FOR THE PERIOD ENDED SEPTEMBER 30, 1992

TABLE OF CONTENTS

	Page
Appointive Officials	iii
Report Distribution	iv
Transmittal Letter	1
Balance Sheet	2
Statement of Revenues, Expenses and Changes in Retained Earnings	3
Comparative Statement of Actual vs Budgeted Revenues and Expenditures	4
Analysis of Revenues and Expenses by Product	5
Notes to the Financial Statements	6

Page 10

APPOINTIVE OFFICIALS

Sandra Guedes, Lottery Director

L. John Onstad, Lottery Assistant Director for Security

LOTTERY COMMISSION

TERM EXPIRES

Ward Shanahan - Chairman	Helena	January 1, 1994
Becky Erickson	Glasgow	January 1, 1993
Bill Ware	Helena	January 1, 1993
David Kasten	Brockway	January 1, 1994
Dwaine Iverson	Shelby	January 1, 1995

LOTTERY LIAISON COMMITTEE

Senator Bob Pipinich	Missoula
Senator Bernie A. Swift	Hamilton
Representative Linda Nelson	Medicine Lake
Representative Norman Wallin	Bozeman

STATE OF NEW YORK

IN SENATE

JANUARY 1, 1901.

REPORT

OF THE

NAME	RESIDENCE	EDUCATION	EXPERIENCE	REMARKS
JOHN A. BROWN	ALBANY	B. A.	1875-1880	Member of the Senate
JOHN C. BROWN	ALBANY	B. A.	1875-1880	Member of the Senate
JOHN D. BROWN	ALBANY	B. A.	1875-1880	Member of the Senate
JOHN E. BROWN	ALBANY	B. A.	1875-1880	Member of the Senate
JOHN F. BROWN	ALBANY	B. A.	1875-1880	Member of the Senate

ALBANY, N. Y.

PRINTED BY THE STATE OF NEW YORK
AT THE OFFICE OF THE COMPTROLLER
IN SENATE
JANUARY 1, 1901.

REPORT DISTRIBUTION

According to Section 23-7-203(9), MCA, copies of this report must be distributed to the following individuals.

Stan Stephens, Governor

Bob Marks, Director, Department of Administration

Scott Seacat, Legislative Auditor

Fred Van Valkenburg, President of the Senate

John Mercer, Speaker of the House

The law also states "the President of the Senate and the Speaker of the House will determine the report distribution to each member of the appropriate committee of each house of the legislature". Copies of this report will be distributed to members of the designated committees once the President of the Senate and the Speaker of the of House appoint the committees.

Montana Lottery

November 23, 1992

Montana Lottery Commission:

Attached is the financial report for the first quarter of 1993. Total revenues for the quarter topped \$7.9 million while net revenues for the School Equalization Account and Board of Crime Control reached nearly \$1.7 million. Beginning this quarter, 9.1% of net revenues will be transferred to Board of Crime Control.

In an attempt to give you a more complete overview of return on investment, this report also incorporates a new analysis of revenues and expenses by product for the Lottery.

Sincerely,



Sandra Guedes
Director

MONTANA LOTTERY
BALANCE SHEETS
FOR THE QUARTERS ENDED SEPTEMBER 30, 1992 AND 1991
(UNAUDITED)

	Quarter Ended September 30, 1992	Quarter Ended September 30, 1991
ASSETS:		
Cash and Cash Equivalents	\$1,863,031	\$1,185,714
Receivables (Net)	1,029,158	811,829
Inventories	104,874	135,304
Computer, Furniture & Equipment	715,216	764,382
Accumulated Depreciation	(506,105)	(447,756)
Intangible Assets	0	140,358
Prepaid Expenses	52,010	6,824
Employee Advances	5,000	5,000
Multi-State Receivable	592,943	530,037
TOTAL ASSETS	<u>\$3,856,127</u>	<u>\$3,131,692</u>

LIABILITIES AND FUND EQUITY:

Liabilities:

Accounts Payable and Accruals	\$354,227	\$589,099
Lottery Prizes Payable	1,612,794	1,041,791
Due to Other Funds	1,689,154	1,303,171
Deferred Revenue	35,004	12,675
Compensated Absences Payable	142,147	110,486
Allowance for Ticket Returns	21,441	74,470
Total Liabilities	<u>\$3,854,767</u>	<u>\$3,131,692</u>

Fund Equity:

Contributed Capital	1,360	0
Retained Earnings Unreserved	<u>0</u>	<u>0</u>
Total Fund Equity	1,360	0

TOTAL LIABILITIES AND FUND EQUITY	<u>\$3,856,127</u>	<u>\$3,131,692</u>
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The accompanying notes are an integral part of these financial statements.

No.	Name	Address
1	John Smith	123 Main St, New York, NY
2	Jane Doe	456 Elm St, Los Angeles, CA
3	Robert Johnson	789 Oak St, Chicago, IL
4	Mary White	101 Pine St, San Francisco, CA
5	James Brown	202 Cedar St, Boston, MA
6	Elizabeth Black	303 Birch St, Philadelphia, PA
7	William Green	404 Spruce St, Washington, DC
8	Patricia Gray	505 Willow St, Miami, FL
9	Richard Hall	606 Ash St, Dallas, TX
10	Susan King	707 Hickory St, Houston, TX
11	Thomas Lee	808 Maple St, Portland, OR
12	Linda Scott	909 Walnut St, Seattle, WA
13	Christopher Young	1010 Cherry St, Denver, CO
14	Nancy Adams	1111 Elm St, Salt Lake City, UT
15	Kevin Baker	1212 Oak St, Albuquerque, NM
16	Michelle Carter	1313 Pine St, Santa Fe, NM
17	Andrew Davis	1414 Cedar St, Las Vegas, NV
18	Stephanie Evans	1515 Birch St, Reno, NV
19	Gregory Foster	1616 Spruce St, Sacramento, CA
20	Kimberly Galt	1717 Willow St, San Jose, CA
21	Benjamin Hall	1818 Ash St, San Diego, CA
22	Rebecca King	1919 Hickory St, San Antonio, TX
23	Jonathan Lee	2020 Maple St, Austin, TX
24	Christina Scott	2121 Walnut St, Fort Worth, TX
25	Timothy Young	2222 Cherry St, Irving, TX
26	Angela Adams	2323 Elm St, Garland, TX
27	Robert Baker	2424 Oak St, Dallas, TX
28	Victoria Carter	2525 Pine St, Fort Worth, TX
29	Christopher Davis	2626 Cedar St, Irving, TX
30	Elizabeth Evans	2727 Birch St, San Antonio, TX
31	Matthew Foster	2828 Spruce St, Austin, TX
32	Olivia Galt	2929 Willow St, San Jose, CA
33	William Hall	3030 Ash St, San Diego, CA
34	Grace King	3131 Hickory St, San Antonio, TX
35	Joseph Lee	3232 Maple St, Austin, TX
36	Chloe Scott	3333 Walnut St, Fort Worth, TX
37	David Young	3434 Cherry St, Irving, TX
38	Isabella Adams	3535 Elm St, Garland, TX
39	Samuel Baker	3636 Oak St, Dallas, TX
40	Madeline Carter	3737 Pine St, Fort Worth, TX
41	Benjamin Davis	3838 Cedar St, Irving, TX
42	Abigail Evans	3939 Birch St, San Antonio, TX
43	Isaac Foster	4040 Spruce St, Austin, TX
44	Emily Galt	4141 Willow St, San Jose, CA
45	Samuel Hall	4242 Ash St, San Diego, CA
46	Madison King	4343 Hickory St, San Antonio, TX
47	Robert Lee	4444 Maple St, Austin, TX
48	Chloe Scott	4545 Walnut St, Fort Worth, TX
49	David Young	4646 Cherry St, Irving, TX
50	Isabella Adams	4747 Elm St, Garland, TX

MONTANA LOTTERY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
PERIOD ENDED SEPTEMBER 30, 1992
(Unaudited)

	Quarter Ended September 30, 1992	Quarter Ended September 30, 1991
REVENUES:		
Instant ticket revenue	\$2,670,692	\$2,427,701
Powerball/Lotto*America ticket revenue	3,203,400	2,962,272
Montana Cash ticket revenue	1,999,504	1,302,243
License and permits	1,100	1,600
Interest earnings	32,253	38,731
Total Revenues	<u>\$7,906,949</u>	<u>\$6,732,547</u>
Cost of Ticket Revenue		
Instant ticket prize expense	(\$1,472,220)	(1,336,069)
On-line ticket prize expense	(2,487,546)	(1,925,992)
Retailer commission	(458,658)	(388,248)
Cost of tickets sold	(92,029)	(132,649)
On-line vendor fees	(975,642)	(941,068)
Net Operating Revenue	<u>\$2,420,854</u>	<u>\$2,008,521</u>
OPERATING EXPENSES:		
Advertising	\$85,105	\$120,213
Amortization	1,753	49,585
Audit Fees	20,539	29,330
Communications	26,068	21,931
Contractual Services	93,766	59,865
Depreciation	29,526	29,052
Management Service Fee	26,161	12,158
Multi-State Dues	42,665	33,040
Other	13,836	14,739
Personal Services	313,610	275,407
Repairs and Maintenance	20,355	19,937
Supplies and Materials	20,982	11,511
Travel	14,303	3,659
Utilities and Rent	23,011	22,896
Total Operating Expense	<u>\$731,700</u>	<u>\$703,323</u>
Operating Income	\$1,689,154	\$1,305,198
NONOPERATING REVENUES (EXPENSES)		
Interest Expense	<u>0</u>	<u>0</u>
Total Nonoperating Revenues		
(Expense)	0	0
Income before Operating Transfers	1,689,154	1,305,198
Operating Transfers In (Out)	<u>(1,689,154)</u>	<u>(1,303,171)</u>
NET INCOME (LOSS)	\$0	\$2,027
Retained Earnings, Beginning of Period (Note 5)	<u>0</u>	<u>(2,027)</u>
RETAINED EARNINGS, END OF PERIOD	<u>0</u>	<u>0</u>
The accompanying notes are an integral part of these financial statements.		

MONTANA LOTTERY

COMPARATIVE STATEMENT OF ACTUAL VS. BUDGETED REVENUES AND EXPENDITURES PERIOD ENDED SEPTEMBER 30, 1992 (Unaudited)

	Budgeted Fiscal Year July 1, 1992 – June 30, 1993	Actual Three Months Ended Sept. 30, 1992 (Unaudited)	Actual as a Percent of Budget (%)
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REVENUES:

Instant ticket revenue	\$9,500,000	\$2,670,692	28.11
Powerball revenue	14,561,000	3,203,400	22.00
Montana Cash revenue	7,435,000	1,999,504	26.89
License and permits	4,000	1,100	27.50
Interest earnings	85,000	32,253	37.94
Other income	0	0	N/A
Total Revenues	\$31,585,000	\$7,906,949	25.03

EXPENSES:

Prizes – instant ticket	5,225,000	1,472,220	28.18
Prizes – on-line games	10,849,300	2,487,546	22.93
Retailer commissions	1,812,300	458,658	25.31
Ticket cost – instant games	522,500	92,029	17.61
Ticket cost – on-line games	3,900,060	975,642	25.02
Total Cost of Ticket Revenue	\$22,309,160	\$5,486,095	24.59
Advertising	\$813,373	\$85,105	10.46
Amortization	1,000	1,753	175.30
Audit Fees	91,514	20,539	22.44
Communications	90,576	26,068	28.78
Contractual Services	427,575	93,766	21.93
Depreciation	111,000	29,526	26.60
Management Service Fee	101,745	26,161	25.71
Multi-State Dues	42,685	42,685	100.00
Other	18,111	13,836	76.40
Personal Services	1,161,463	313,610	27.00
Repairs and Maintenance	84,549	20,355	24.07
Supplies and Materials	52,493	20,982	39.97
Travel	37,119	14,303	38.53
Utilities and Rent	93,507	23,011	24.61
Total Operating Expenses	\$3,126,710	\$731,700	23.40
NET REVENUE	\$6,149,130	\$1,689,154	27.47

MONTANA LOTTERY
ANALYSIS OF REVENUES AND EXPENSES BY PRODUCT
FOR THE QUARTER ENDING SEPTEMBER 30, 1992

	<u>INSTANT</u>	<u>POWERBALL</u>	<u>MONTANA CASH</u>	<u>ADMINISTRATIVE</u>
REVENUES:	\$2,670,692	\$3,203,400	\$1,999,504	\$33,353
COST OF TICKET REVENUE:				
Prize Expense	(\$1,472,220)	(\$1,569,314)	(\$918,232)	\$0
Retailer Commissions	(203,623)	(156,748)	(98,288)	0
Cost of Tickets Sold	(92,029)	0	0	0
On-line Vendor Fees	<u>0</u>	<u>(600,179)</u>	<u>(375,463)</u>	<u>0</u>
NET OPERATING REVENUE	\$902,820	\$877,159	\$607,522	\$33,353
OPERATING EXPENSES:				
Advertising	\$44,720	\$18,924	\$21,388	\$74
Amortization	0	0	0	1,753
Audit Fees	0	0	3,741	16,798
Communications	3,803	0	0	22,265
Contractual Services	35,434	11,000	11,236	36,095
Depreciation	0	0	0	29,526
Management Service Fee	0	0	0	26,161
Multi-State Dues	0	42,685	0	0
Other	3,333	0	0	10,504
Personal Services	116,593	30,028	32,194	134,795
Repairs and Maintenance	15,311	0	0	5,044
Supplies and Materials	11,512	589	3,896	4,985
Taxes	5,356	869	807	7,271
Utilities and Rent	0	0	0	23,011
TOTAL OPERATING EXPENSES	\$236,062	\$104,095	\$73,262	\$318,281
PROFIT BY PRODUCT & OTHER	\$666,758	\$773,064	\$534,260	(\$284,928)
PROFIT AS A % OF REVENUE	24.97%	24.13%	26.72%	

MONTANA LOTTERY
Notes to the Financial Statements (Unaudited)
For the Period Ended September 30, 1992

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity.

The Montana Lottery, established under the provisions of Section 23-7-101, Montana Code Annotated (MCA), was approved by the Montana electorate through Legislative Referendum No. 100 on November 4, 1986.

Montana's first lottery tickets went on sale June 24, 1987.

The Montana Lottery is operated by a five member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and prepare financial reports.

Basis of Presentation. The Montana Lottery reports its financial activity in accordance with generally accepted accounting principles (GAAP) as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB).

Enterprise Fund. The Montana Lottery is classified as an Enterprise Fund of the governmental Proprietary Fund Type. Enterprise Funds account for operations: a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Basis of Accounting. The Montana Lottery's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Revenue Recognition. Lottery instant ticket sales are recorded as revenue based on ticket deliveries to the retailers. In accordance with an established policy, retailers may return unsold tickets to the Lottery for credit. Sales are decreased by an allowance for estimated ticket returns.

Lottery on-line ticket sales are recorded as revenue based on drawings. Tickets sold in advance for future drawings are recorded as deferred revenue until such time as the tickets become valid for the most current drawing.

Free Tickets. The Montana Lottery's instant games award free tickets as prizes. Net lottery ticket revenue does not include the value of free tickets given away and free plays won. The face value of these free tickets distributed approximated \$365,641 for the quarter ended September 30, 1992.

Instabucks. (Discontinued as of September, 1992.) Instabucks are a Lottery coupon good, upon redemption, for a lottery ticket. Instabucks, used to stimulate lottery ticket sales, are usually given away for promotions, retailer clerk incentive programs, and advertising trade-outs. The lottery tickets distributed resulting from Instabuck redemptions are reflected as a reduction in revenue. The related prize expense and ticket cost are reclassified as an advertising expense. For the quarter ended September 30, 1992, Instabuck redemptions resulted in a revenue reduction of \$43,439 and a prize expense reclassification of \$23,996.

Prizes. Expenses for instant prizes are recorded based on the predetermined prize structure for each game. No prize expense is recorded for free tickets distributed.

Expenses for on-line prizes are recorded based on the predetermined prize structure for the on-line game.

2. SUMMARY OF ACCOUNTS

Cash and Cash Equivalents. This represents the Lottery's cash on hand and investments in the Board of Investments Short-Term Investment Pool (STIP). Interest earnings accrue daily on STIP balances and income is distributed monthly. STIP interest earnings for the quarter ended September 30, 1992 totalled \$11,133.

Receivables. Receivables totalling \$1,029,158 represent amounts owing the Lottery for purchased tickets. An allowance for doubtful accounts has been established based on historical perspective. As of September 30, 1992 the allowance had an account balance of \$1,983.

Receivables include a \$1,214 adjustment in retailer commissions related to estimated ticket returns.

Inventories. Inventories consist of merchandise, Instabuck and supplies inventories. Merchandise inventory includes lottery tickets valued at \$80,566 stored in the warehouse and with the marketing representatives. These ticket inventories are recorded at cost using the specific identification method and maintained on a perpetual inventory system. Tickets are charged to cost of tickets sold when sold. After game end and awaiting disposal, unsold tickets are charged to cost of tickets sold.

Merchandise inventory includes a \$808 adjustment related to estimated ticket returns.

Supplies inventories include paper supplies, ticket dispensers, premiums and point-of-sale materials having an initial value of \$5,000 or more. At quarter end, supplies inventories totaled \$24,308. These inventories are also recorded at cost using the specific identification method.

Due to Other Funds. The account "Due to Other Funds" totalling \$1,689,154 reflects \$1,535,441 payable to the State Superintendent of Public Instruction School Equalization Fund and \$153,713 payable to the Board of Crime Control for the period ended September 30, 1992.

Compensated Absences. State employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Vacation leave may be accumulated not to exceed two times the maximum number of days earned annually. With no limit on accumulation, sick leave is earned at 12 days per year. Upon retirement or termination, an employee is paid 100% for unused vacation and 25% for unused sick leave. The Lottery's payable for compensated balances is detailed below.

Balance	Net Leave	Balance
<u>June 30, 1992</u>	<u>Earned/Used</u>	<u>September 30, 1992</u>
\$126,424	\$15,723	\$142,147

Allowance for Ticket Returns. This allowance represents a liability as of September 30, 1992 for estimated ticket returns. This is an estimate based, partially, on actual returns received after the end of the quarter. The allowance for ticket returns was decreased by \$3,476 from the quarter ending September 30, 1992. Conversely, ticket revenue has been increased by approximately \$3,476 for the quarter ended September 30, 1992. Prize expense has been increased by approximately \$2,131. Commissions and cost of goods sold have also been increased for expenses associated with this change in allowance.

Contributed Capital. The Lottery was given a mid-size pickup by another state agency. This vehicle was booked at the fair market value of the pickup.

Commissions. Section 23-7-301(10), MCA provides retailers a commission on instant and on-line tickets or chances sold. The Lottery commission established this commission at 5% of the face value of instant tickets delivered to the retailers and on the amount of tickets sold for each on-line drawing. The commission on tickets sold to the retailers gives the retailer \$15 per book of 300 tickets and 5 cents for each on-line ticket sold. For the quarter September 30, 1992, commissions totaled \$458,658.

Retailers can receive bonus commissions on tickets sold based on incremental sales of instant tickets. During the quarter ended September 30, 1992, retailers earned bonus commissions totaling \$49,617.

3. MARKETING PRODUCTION EXPENSES

The Lottery has contracted with several vendors to provide marketing related services and materials. These services include media placement, creative design and layout, media production. Materials include ticket dispensers. The cost of these services and materials are detailed below for the quarter ending September 30, 1992:

Marketing services (including media placement, creative design and layout, printing and media production)	\$ 48,000
Ticket Dispensers	7,057

4. PAYMENTS TO OTHER STATE AGENCIES

The Lottery receives a variety of services and supplies and materials from other state agencies. These services and materials are detailed below for the quarter ending September 30, 1992:

Audit Fees	\$ 20,539
Payroll Processing Fees	1,978
Insurance	6,369
Computer Fees	1,063
Records Retention Fees	310
Printing	4,663
Supplies and Materials	1,409
Mail Processing Fees	9,279
Telecommunications	11,369
Vehicle Rental Fees	390
Management Service Fees	26,161



5. PAID PRIZES

Section 23-7-402 MCA states "A minimum of 45% of the money paid for tickets or chances must be paid as prize money". From July 1, 1992 through September 30, 1992 prizes paid are detailed as follows:

High-tier	\$ 253,184
Low-tier	1,184,761
On-line	<u>1,962,093</u>
	\$ 3,400,038

High-tier prizes reflect instant ticket prizes greater than \$50 paid through Lottery headquarters. Low-tier prizes of \$50 or less are paid by the retailer or Lottery headquarters.

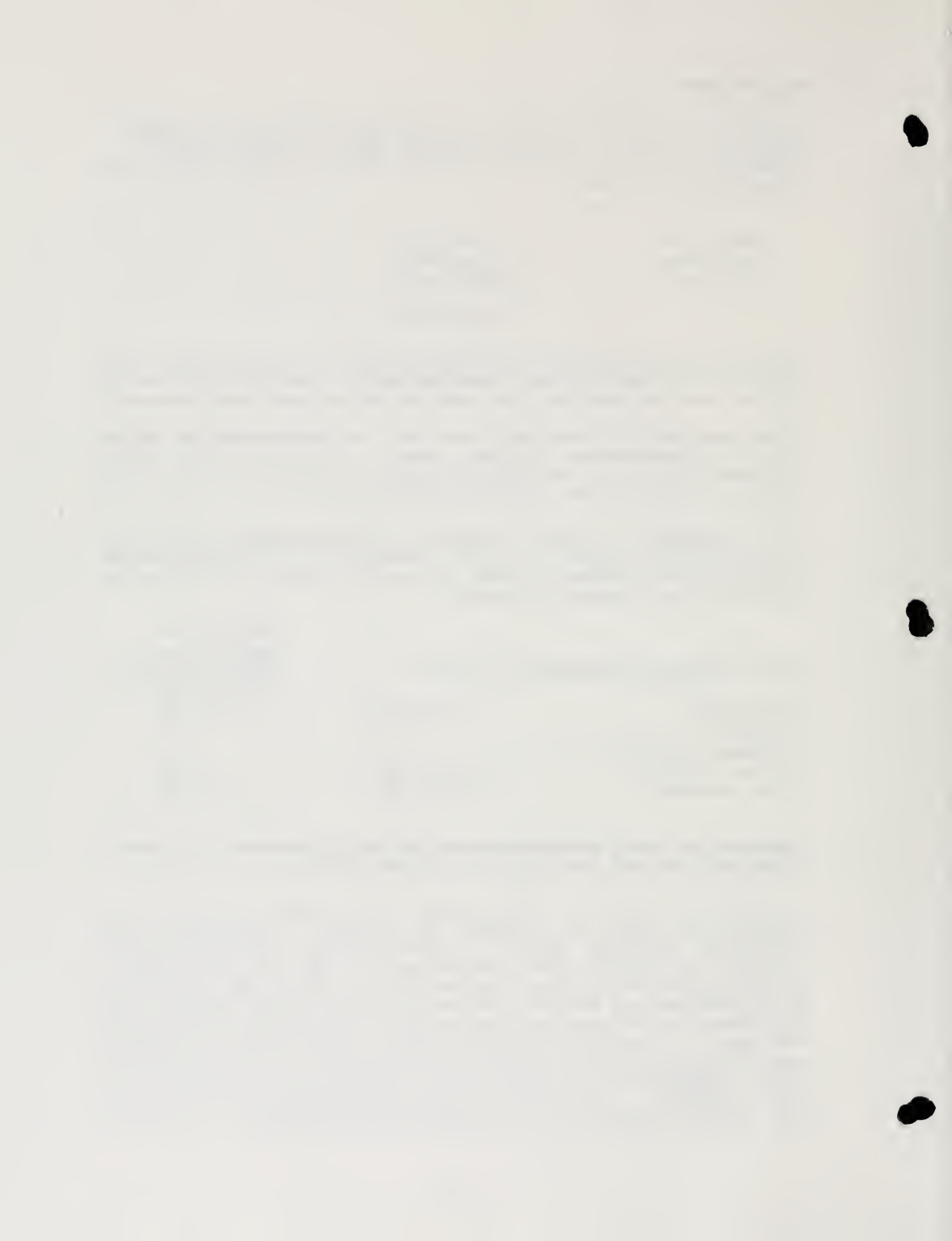
Prize expense is recorded based on the predetermined prize structure percentage for each game. For the quarter ended September 30, 1992, the prize expense of \$3,959,766 is 50.29% of net Lottery ticket revenue of \$7,873,596.

When recording the prize expense, a corresponding liability for high-tier prizes is also recorded. The relationship between prize expense, prizes paid and the change within prize liability is illustrated below:

<u>July 1 through September 30, 1992</u>		<u>Percent of</u> <u>Net Lottery</u> <u>Ticket Revenue</u> <u>(Unaudited)</u>
Prizes paid	3,400,038	43.18
Instabucks	(23,996)	(.30)
Increase (decrease) in prize liability	<u>583,724</u>	<u>7.41</u>
Prize expense	\$ 3,959,766	50.29

6. TRANSFER TO STATE SUPERINTENDENT OF PUBLIC INSTRUCTION SCHOOL EQUALIZATION FUND AND BOARD OF CRIME CONTROL

Section 23-7-402(3), MCA states "that part of all gross revenue not used for payment of prizes, commissions, and operating expenses is net revenue except for the amount required to be paid under subsection (5) net revenue and must be paid quarterly from the enterprise fund to the State Superintendent of Public Instruction School Equalization Fund for distribution as equalization aid to the public schools of Montana..." Section 23-7-410(5) MCA states "For the fiscal year beginning July 1, 1992, 9.1% of the net revenue derived under subsection (3) must be paid quarterly to the Board of Crime Control." For the quarter ended September 30, 1992, the net revenue payable to the State Superintendent of Public



Instruction totalled \$1,535,441 and the net revenue payable to the Board of Crime Control totalled \$153,713.

7. MULTI-STATE LOTTERY RECEIVABLE

As a member of the Multi-State Lottery Association (MUSL) and the POWERBALL game, the Lottery is required to contribute to a prize reserve fund maintained by MUSL. This fund is to be used only in the event of an unanticipated prize claim. It is an insurance fund intended to protect the member lotteries against the liability that could result from a system failure at one of the member lotteries. All money paid to this fund, as well as the interest earned on the Lottery's share of the fund, would be returned to the Lottery upon leaving MUSL (assuming that no unanticipated prize claims have been paid).

The Lottery contributes to the reserve fund through the 50% set-aside for prizes. In addition the Lottery was required to contribute for its portion of the reserve fund accumulated since the start of the POWERBALL game. The Lottery made this payment in full as of June 1990, through an additional 2% of drawing revenue rather than making a lump sum payment. Payments made to the reserve fund are considered a portion of the prize expense associated with the on-line game. Contributions to this fund and interest earnings total \$592,943 as of September 30, 1992.

8. GAMES

Currently, the Montana Lottery games are instant ticket games and two on-line games referred to as POWERBALL and Montana Ca\$h. Instant ticket games provide players the opportunity to win instantly by scratching a latex covering to reveal a prize. The POWERBALL game allows players the chance to win a minimum pari-mutual jackpot of \$2 million. A player must match all 6 numbers to win the jackpot, players win prizes ranging from \$1 to \$100,000 for matching less than all 6 numbers. Drawings are held twice weekly on Wednesday and Saturday nights. For any drawing, if no ticket matches 6 out of 6 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.

The Montana Ca\$h game allows players the chance to win a minimum pari-mutual jackpot of \$20,000. Players select 5 numbers from a field of 37 and must match at least 3 out of 5 to win a prize. Matching 3 of 5 wins \$5.00 and 4 of 5 wins \$200. The drawing is held twice weekly on Wednesday and Saturday nights. If no ticket matches all 5 numbers, the jackpot rolls over to the next drawing to create a progressive jackpot.



9. GAMING SUPPLIER CONTRACTS

Tickets. On March 9, 1991, the Montana Lottery entered into a one year contract with Dittler Brothers, Inc. to purchase lottery tickets.

The contract contains specifications regarding ticket design, printing, game ownership, inspection, and prize structure. The contract requires payment within 30 days of ticket receipt.

Dittler Brothers, Inc., as the vendor, delivered a \$500,000 performance bond covering the contract term. The Company also provided an errors and omissions policy covering an ultimate net loss of \$4,500,000.

This contract may be terminated when termination is in the best interest of the Lottery with proper notification to Dittler Brothers, Inc.

Computer Hardware and Software. The Lottery contracted with Scientific Games, Inc. on February 25, 1987, to purchase a used Stratus computer. The computer hardware and software cost \$381,243. This contract also covered the acquisition of an Uninterruptable Power Supply (UPS) system for \$40,551. The UPS system protects the computer against electrical power surges and failures.

The Lottery signed a separate agreement with Stratus Computer, Inc. on June 2, 1987, for maintenance of the Stratus computer hardware and software. Monthly maintenance totals \$5,119.

On July 28, 1987, the Lottery signed a second agreement with Stratus Computer, Inc. regarding the Stratus software license. Under this contract, Stratus Computer, Inc. grants the Lottery a "nonexclusive, nontransferable license" to use the software of the Stratus computer. The proprietary rights and title of the software remain with Stratus Computer, Inc.

Lottery Software. On February 25, 1987, the Lottery agreed to purchase the Instant Lottery System (ILS) software package for \$840,400. This agreement provides the Lottery a "perpetual, nonexclusive, nontransferable license to use the software solely for the Lottery's own use". The contract allows the Lottery to make 36 monthly payments of \$23,344.44 with no interest. The first payment was due June, 1987.

Under the Extension and Second Amendment of Instant Ticket Contract dated January 5, 1989, these monthly payments were reduced to \$11,672.22 commencing with the November 1988 payment. Upon expiration or termination of the Instant Ticket Contract with Scientific Games, Inc. on March 8 1990,

Volume 41, No. 19

CONTENTS

Original Articles

Editorial

Correspondence

Department of Medicine

Department of Surgery

Department of Obstetrics and Gynecology

Department of Pediatrics

Department of Dermatology and Syphilology

Department of Radiology

Department of Pathology

the payments were reinstated to \$23,344.44 until the balance was paid in full.

On-line Services. On August 30, 1989, the Lottery contracted with Control Data Corporation to provide on-line terminals, central computers, telecommunications network, and training for a five year period. The contract, with an effective date of November 9, 1989, provides that payment will be a percentage of sales, which for the first year of the contract will be 25% of the first \$250,000 of weekly sales, and 19% for sales between \$250,001 to \$500,000. The percentage decreases with higher weekly sales.

On November 9, 1991, the Lottery and Control Data Corporation entered into the third year of the on-line contract. Payment during the third year of the contract is based on 19% of the first \$750,000 of weekly sales. This percentage decreases with higher weekly sales.

On May 22, 1992, the Lottery agreed to the assignment of its contract with Control Data Corporation to Automated Wagering International, Inc. Automated Wagering delivered a \$2,280,000 performance bond covering the third year of the contract term.

10. PRIZE ANNUITIES

During fiscal year 1989, the Montana Lottery awarded four Big Spin Jackpot prizes totalling \$5,000,000. The Lottery made the initial payments to the winners in the amount of \$253,088 and on September 26, 1988, the Montana Lottery awarded annuities in the amount of \$2,350,180 to Western National Life. Through these annuities, Western National Life makes the remaining payments to the Big Spin Jackpot winners. As of September 30, 1992, the contingent liability for future prize payments funded through the purchase of annuities was \$3,734,559.

11. LOTTO*AMERICA/POWERBALL JACKPOT PRIZES

Jackpot prizes awarded in the Lotto*America/POWERBALL game are funded through the purchase of U.S. Treasury Zero-Coupon Bonds purchased in the name of the Montana Lottery by MUSL. MUSL will cash the bonds each year as they mature and will wire the funds to the Lottery for payment to winners on the anniversary date of the win.

On January 13, 1990, the Montana Lottery awarded its first Lotto*America jackpot prize totalling \$1,740,000. The first annual payment of \$87,000 was made on February 1, 1990. On May 9, 1990, the Lottery awarded a second Lotto*America jackpot prize of \$3,000,000. The first annual payment of \$150,000 was made on May 23, 1990. A third jackpot prize was awarded on February 2, 1991 for \$7,360,000. The first annual

payment of \$368,000 was made February 15, 1991. On November 23, 1991 a fourth jackpot prize was awarded totalling \$46,967,738.57. The first annual payment of \$2,355,738.57 was made December 12, 1991. On April 11, 1992 a fifth jackpot prize was won totalling \$2,000,000. The first annual payment of \$100,000 was made on April 27, 1992.

As of September 30, 1992, the contingent liability for future prize payments funded through the purchase of U.S. Treasury Zero-Coupon Bonds was \$57,165,000.

